



Date: August 6, 2015

To: Thomas J. Bonfield, City Manager

Through: Keith Chadwell, Deputy City Manager

From: Reginald J. Johnson, Director
Department of Community Development

Subject: Resolution Providing Approval of a Financing by the Housing Authority of the City of Durham for Morreene Road Apartments for Purposes of Section 147(f) of the Internal Revenue Code

Executive Summary

The Housing Authority of the City of Durham (“DHA”) wishes to issue its tax-exempt multifamily housing bonds for the benefit of the Morreene Road Apartments affordable housing redevelopment project. The project will be spearheaded by DHA’s real estate development affiliate, Development Ventures Incorporated (“DVI”), utilizing tax-exempt multifamily housing bonds, low-income housing tax credit equity and other sources as noted below. As a result of the project, 224 apartment units will remain exclusively affordable to low and moderate income residents of Durham, North Carolina.

Please note that this project will utilize the recently-awarded \$500,000 City grant (from the Dedicated Housing Fund balance) to satisfy the transactional liquidity and net worth requirements of the low-income tax credit investor, RBC Capital Markets. As such, and consistent with the City’s requirements, the development will be maintained as an affordable housing project for a period of no less than thirty (30) years, commencing when the development is placed in service.

DHA is requesting that the City approve the Bonds in order to satisfy federal law. The Internal Revenue Code requires that the financing be approved by the City Council after DHA holds a public hearing regarding the financing.

Recommendation

The Department of Community Development recommends that the City Council adopt a Resolution providing approval, for purposes of Section 147(f) of the Internal Revenue Code only, of a multifamily housing facility known as Morreene Road Apartments in the City of Durham, North Carolina and the financing thereof by the Housing Authority of the City of Durham of Multifamily Housing Bonds in an aggregate amount not to exceed \$10,000,000.

Background

DHA requests that the City authorize this resolution approving the Morreene Road Apartments rehabilitation project and the issuance of the multifamily housing revenue bonds.

Morreene Road Apartments is a planned substantial rehabilitation project that consists of 224 residential apartment units (the "Development"). The Development is located at 3412 Glasson Street, Durham, North Carolina on 21.7 acres. The project received a 2014 (later exchanged for a 2015) 4% low-income housing tax credit allocation-bond volume cap award from the North Carolina Housing Finance Agency. All 224 units will be low-income housing tax credit eligible and converted from public housing units to project-based assistance program units under HUD's Rental Assistance Demonstration program ("RAD Program"). The income levels of all of the 224 units in the Development will be rent restricted to amounts not greater than 60% of the area median income, adjusted for family size.

The project budget for Morreene Road Apartments is \$16,799,868 and will be financed with a combination of the following projected sources: (1) Tax-exempt bond loan proceeds in the amount of \$6,150,000; (2) Low-income housing tax credit equity in the amount of \$4,592,015; (3) DVI deferred developer fee in the amount of \$491,853; (4) DHA grant in the amount of \$1,621,000; (5) Seller financing (purchase money note) in the amount of \$3,000,000; (6) Net operating income during construction in the amount of \$630,000; and (7) Deferred subordinated note in the amount of \$315,000. The Development is expected to close in August or September of 2015 and have a 14-month construction schedule.

The Developer of the Development is DVI, an affiliate of DHA. The Development financing partners include RBC Capital Markets, Hunt Mortgage Group and the North Carolina Housing Finance Agency.

DHA preliminarily approved the deal on November 6, 2013 by passing an inducement resolution. DHA held a public hearing on November 19, 2014 and provided final approval of the Bonds, including approval of the Borrower, the plan of financing and financing team on May 27, 2015.

Issues/Analysis

DHA is requesting that the City approve the Bonds to allow the financing to meet a requirement of Section 147(f) of the Internal Revenue Code. The Code requires that the "applicable representative" (the City Council) of the jurisdiction in which the bond-financed project is located adopt a resolution after the issuer (DHA) holds a public hearing. As noted above, DHA held a public hearing regarding the Bonds on November 19, 2014.

The City will not be liable for the Bonds. The Bonds will be primarily secured by the Development revenues, a first mortgage on the facilities and additional credit guarantees provided by the borrower. The Bonds will not be secured by any form of taxation or funds of the City. Neither will the Bonds represent or constitute a general

obligation of the City. Additionally, the Bonds will not be regarded as an obligation of DHA.

Alternatives

The City could choose not to authorize the issuance of the Bonds, which would, in effect, prevent DHA and DVI from financing the transaction, and significantly impair DHA's and DVI's abilities to provide affordable housing units to residents of the City of Durham.

Financial Impact

The adoption of this resolution has no fiscal impact on the City.

SDBE Summary

Not applicable